

14 May 1970

MEMORANDUM FOR THE RECORD

SUBJECT: Voluntary Employee Savings and Investment Program

STATINTL 1. In connection with his note, informed Mr. Maury, per [REDACTED] OGC, that the Voluntary Employee Savings and Investment Program:

a. had been "approved by the Director";

STATINTL ! b. its implementation is being held up on a technicality with IRS which [REDACTED] hopes to have resolved favorably shortly;

STATINTL c. [REDACTED] had mentioned to either the Director or Colonel White the desirability of fuller briefing of Subcommittee staff/members on the plan but was informed that the Director himself would do it at a propitious time.

STATINTL 2. Further briefing of the Subcommittee probably is desirable and I've asked [REDACTED] to let us know when the IRS matter is favorably resolved at which time this should be brought to Mr. Maury's attention once again to determine whether such briefings prior to implementation of the plan is foreclosed as a result of the Director's or Colonel White's earlier instructions.

[REDACTED]
Assistant Legislative Counsel

STATINTL

Distribution:

Orig - Subj

1 - Chrn

OLC/LLM:sml (18 May 70)

Approved For Release 2001/07/26 : CIA-RDP72-00337R000300120004-9

L.L.M.

I've been holding this
for months - do you know
where it stands? My
last recollection was that
we were waiting for
DCI to decide whether
to go forward - Jm

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OGC 69-1491

21 August 1969

MEMORANDUM FOR: Executive Director-Comptroller

SUBJECT: Establishment of a Voluntary Employee
Savings and Investment Program

1. This memorandum contains a recommendation in paragraph 17 for the approval of the Executive Director-Comptroller.

2. The special task force authorized by the Executive Director-Comptroller to develop a plan for a voluntary employee savings and investment retirement program has developed such a plan which is described below and in the attachments.

Development of Program

3. Since 4 October 1968, the task force and its predecessors have investigated the kinds of tax exempt retirement and savings plans available and the experience of many plans in effect in other organizations. Particular attention was devoted to the TAKE STOCK Plan of the Tennessee Valley Authority which, as far as can be determined, is the only voluntary investment plan sponsored by a U. S. Government employer. Two visits were made to TVA in Knoxville, Tennessee, and TVA's retirement board permitted us to examine their program in detail.

4. For advice on investments the task force has consulted two New York Stock Exchange member brokers, officers of Bankers Trust Company in charge of pension trusts, the Senior Vice-President (Investments) INA Corporation and INA officer's in charge of pension trusts and mutual fund distribution, the investment advisory and mutual fund management firm of Scudder, Stevens and Clark, and the Chairman, Presidents and senior staff of the Fidelity Management and Research Company and the Crosby Corporation, their wholly owned mutual fund distributor.

5. The OCS member of the task force and an Office of Finance representative have examined the accounting program of the TVA plan and are satisfied that a satisfactory accounting and computer program can be developed by the Agency. Legislative Counsel has briefed the staff chiefs of all four CIA subcommittees, and they foresee no objection to the program. The OGC member of the task force has consulted the Chief, Pension Trust Branch, IRS, who sees no problem in qualifying the type of plan we propose. The Office of Security has no objection to the proposal provided that the identities of members of the plan are not disclosed outside of the Agency. This requirement can be met with little difficulty.

Description of Plan

6. Drafts of the proposed trust and plan are at Attachment A. This is an internally trusteeed plan like that of TVA. Six trustees will be appointed from among Agency employees by the Deputy Director. The trustees bear legal responsibility for operation of the plan and investment of the members' contributions. Investments are owned by the trust for the benefit of the members who hold units in the trust. Expenses are borne by the Agency except that sales commissions and investment management fees are paid by the members through charges deducted from each investment and from the net assets invested. CIA may terminate the plan at any time.

7. Participation in the plan is limited to U. S. citizen employees who have at least three years of Agency service and who are members of the Civil Service or CIA Retirement Systems. Members of the retirement systems are the vast majority of Agency employees, but this requirement will eliminate most short-term or temporary employees. The three-year service limitation is included to reduce the administrative burden by excluding those employees among whom turnover is greatest. The citizenship requirement will eliminate tax and security problems which inclusion of aliens might cause.

8. While the board of trustees will be responsible for investment of members' contributions, they are limited to investment in specified mutual funds or short-term U. S. Government securities and, thus, will have no responsibility for purchase and sale of individual stocks. They will consult the broker-dealer and the mutual fund management company periodically and from time to time may

offer changes or additions to the investment options available to members. The plan provides for one of its savings funds to invest in short-term Government securities so that members who wish to freeze their investments in preparation for retirement or at a time when the stock market seems unusually risky, may have an alternative other than withdrawing from the plan.

9. The minimum contribution is set at \$10 per biweekly pay period in order to avoid the administrative burden and expense of very small investments. The maximum contribution is 10 percent of basic salary. Internal Revenue regulations limit the maximum to 10 percent of gross compensation, but OCS and the Office of Finance feel that the basic salary standard will be much easier to administer. A further exception will permit a member who has contributed less than 10 percent of his basic salary to make additional contributions at a later date to bring his aggregate contributions up to the 10 percent limit for all the years in which he has been a member of the plan. This exception was made possible by a Revenue Ruling issued in May 1969, and the task force feels it is a desirable option to permit employees to put additional funds into this tax sheltered investment when their personal financial circumstances permit.

10. Normally, a member will withdraw his equity in the plan at the time he separates from the Agency. If he waits until separation to withdraw, the excess of the value of his equity over his contributions will be taxed as a long term capital gain. There is also a provision for partial or entire withdrawal of a member's equity while he is still employed. However, in such a case the increment in his investment will be taxed as ordinary income, and there will be a limitation on his right to again become a member of the plan. A member who needs or wishes to discontinue his periodic contributions may do so without withdrawing his equity and may reinstate his contributions at any time. The member may name his beneficiary and may elect distribution of his equity to himself or his beneficiary in a lump sum, in installments or in shares of a mutual fund in which the trust is invested or another mutual fund sponsored by the same investment adviser.

11. The plan also provides for the member to borrow against his equity under such terms as may be prescribed by the board of trustees. This is not a common privilege in such plans, but the task force feels that a member needing cash should be in a position to use his equity in the plan without suffering the penalties of premature withdrawal. Loans would not be made by the trust, but rather by a

bank, credit union, or other lender approved by the trustees. The task force has discussed this provision with the manager of the Northwest Federal Credit Union and the task force member who is a director of the Credit Union. They believe the Credit Union will be able to accommodate loan requirements under this provision and, therefore, there need be no security problem for any employee of the Agency who wishes to borrow against his equity.

Selection of Investments

12. The basic premise of the task force was that the investment responsibility of the task force and of the trustees should be limited to the selection of competent professional investment managers. In the case of mutual funds, the selection of a manager may automatically include the selection of a particular fund, but in no case would the trustees recommend or select individual investment securities. Accordingly, the task force met with officers of five investment specialists representing stockbrokers, trust companies, insurance companies, investment advisers, and mutual funds. Several of these companies made thoughtful presentations which were responsive to our needs and resulted in the decision to offer mutual funds as the initial investment medium. The task force and all of its advisers felt that either mutual funds or a managed portfolio of stocks and bonds were the only appropriate investment mediums for a plan of this kind, at least in the beginning. Mutual funds offer some advantages over the special portfolio. Some funds are available which are managed by organizations responsible for the investment of billions of dollars for mutual funds, institutions and individuals. Such organizations can afford the best investment management talent which is scarce and expensive. They also may have the best entree to the rest of the business and investment community which provides much of the information essential to productive investment. A large mutual fund family offers flexibility to the plan or individual who may wish to switch or expand his investment objectives. Funds have appeal to many people who have not had the time or inclination to invest in stocks. Quotations are printed daily in most newspapers, and the comparative performance of every fund is a matter of public record. Finally, they offer the most conclusive means of placing investment management in the hands of independent professionals rather than under the control of Agency employee trustees. A special portfolio supervised by a professional investment adviser also has some advantages and may be preferred by more sophisticated investors. The decision to start our plan with mutual funds does not preclude the later addition of a separate portfolio.

13. INA Security Corporation was selected as our broker-dealer (Attachment B), and after further consultation they recommended use of the Fidelity Group of Mutual Funds, managed by the Fidelity Management and Research Company of Boston (Attachment C). After spending a day with Fidelity officers, portfolio managers, and analysts, the task force concurred in INA's recommendation and selected the Fidelity Trend Fund and the Everest Fund as the investment mediums to be offered initially to employees (Attachments D and E).

14. The Fidelity Group, which was established in 1930, is well known and respected in the investment community. It supervises over four billion dollars' worth of investments for more than five hundred thousand investors through six mutual funds currently being offered to the public, five mutual funds not sold publicly, and through Fidelity Management and Research Company, a registered investment adviser serving individual and institutional clients (Attachment F). The six mutual funds currently offered provide a wide choice of investment objectives should the Agency plan wish to offer additional options. These funds may be exchanged for each other without commission charges and, therefore, will permit a retiring employee to take his equity in a fund not available in the plan but which may better meet his retirement needs. Fidelity can be expected to offer new mutual funds from time to time as their investment theories are proven through trial periods of private investment. The task force was impressed with the breadth and diversity of investment methods and theories among Fidelity's analysts and portfolio managers, the initiative and independence of the staff encouraged by the company, and the fact that there appeared to be many able and talented employees in all levels and age groups, promising continuity of good management.

15. The task force proposes that the Agency investment program initially offer the Fidelity Trend Fund and the Everest Fund, as well as the option of investment in short-term Government securities. Fidelity Trend is a large fund with the primary objective of capital appreciation. It invests mostly in common stocks of both established companies and smaller, less well known companies (Attachment G). Everest is a small and newer fund seeking modest but growing income plus capital appreciation through common stocks and convertible securities as well as investments in situations which cannot be effectively exploited by large funds (Attachment H). We believe these two mutual funds provide prudent investment management and opportunity for long-term capital appreciation and offer sufficiently contrasting investment objectives and methods to give the employee meaningful options.

Administration

16. The overall responsibility for day-to-day management of the Voluntary Investment Plan should be given to the Deputy for Special Programs of the Office of Personnel. This is consonant with present functions in the area of employee benefit programs. The details of accounting and record-keeping are being worked out by the Offices of Personnel and Finance. The methods used should follow the TVA system closely. The task force recommends the use of computer processing to assist in record-keeping. Indeed, there is no practical alternative other than the broker-dealer providing all services, which is not feasible because of security considerations. Initial costs will include 13 man months of programming and systems work, plus the man hours necessary to promote the plan, enroll participants, and establish the files. Continuing costs will include about six hours of computer processing a month and continuing part-time attention from various personnel in the Offices of Finance, Personnel, and Computer Services. Such part-time service will be complementary to the present duties of these personnel, and TVA has found it unnecessary to add any personnel or overtime work to administer its plan. Until the plan is in operation, we will not be certain that our experience will be the same; but with the possible exception of the start up period, it seems unlikely that a substantial portion of any employee's time will be needed to manage the program.

Recommendation

17. The task force recommends that the Executive Director-Comptroller approve the establishment of a voluntary employee savings and investment plan in the form set forth in the draft Trust Agreement and Plan, dated 7 August 1969, attached hereto.

STATINTL


Deputy Chairman
Investment Plan Task Force

Attachments:

A - H

OGC 69-1491

CONCURRENCE:

Deputy Director for Support

Date

The recommendation in
paragraph 17 is approved

Executive Director-Comptroller

Date

OGC:JDM:bg

Distribution:-----

Orig - Ch/Investment Plan Task Force, w/att A-F

1 - ExDir-Comp, w/o att

1 - ER, w/o att

1 - DDS, w/o att

1 - Each Member of Task Force, w/att A-E

1 - Subject - RETIREMENT

1 - JDM Signer

✓ 1 - Chrono